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Office of the Comptroller's Directive No. 1-05

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Attachment HE-13, Report of Financial Condition

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## Office of the Comptroller's Directive No. 1-05

# Financial Statement Template Preparation for Higher Education Institutions

## Introduction

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### Subject

This Directive addresses higher education institutions' responsibilities for submitting the financial statement template and other financial information to the Department of Accounts (DOA).

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### New reporting requirement

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, amends GASBS No. 3 by updating the custodial credit risk disclosure requirements and by establishing more comprehensive disclosure requirements for other common risks of deposits and investments. This statement is effective for FY 2005. Higher education institutions are required to submit an Attachment HE-10A in order to comply with this new reporting requirement.

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### Purpose

This Directive provides guidance to higher education institutions for submitting the following items to DOA to assist in the preparation of the Commonwealth's Comprehensive Annual Financial Report (CAFR).

- Financial statement template based on generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB)
  - Other required financial information
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## Introduction, Continued

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### **Institution compliance**

Institutions are required pursuant to Section 2.2-803 and Section 2.2-813 of the *Code of Virginia* (1950), as amended, to submit a financial statement template and / or other financial information for the following reasons.

- The financial information required by this Directive is necessary for DOA to prepare the CAFR.
- The bond rating agencies use the CAFR to determine Virginia's bond rating. Maintaining an unqualified opinion on the CAFR is critical to Virginia retaining its AAA bond rating.
- The bond rating agencies require that parts of the CAFR be included in bond offering statements.

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## Introduction, Continued

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### Applicability

This Directive applies to the Virginia College Building Authority (VCBA), Roanoke Higher Education Authority (RHEA), Innovative Technology Authority, Institute for Advanced Learning and Research, Southwest Virginia Higher Education Center, and all State-supported higher education institutions (HEIs).

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### Policy

For year-end closing and financial statement template preparation, all higher education institutions must comply with the following guidelines. These are described in detail on the following pages.

- Reconciliation to Draft Financial Statements
  - Preparation of Attachments
  - Preparation of Financial Statement Template Work Papers
  - Preparation of Financial Statement Template
  - NACUBO and GASB Guidance
  - Preparation of Fluctuation Analyses
  - Supplemental Information
- 

### Failure to comply

Failure to comply with this Directive could result in the following:

- The Comptroller will disclose such failure in the *Quarterly Report on Statewide Financial Management and Compliance*; and
  - The institution may not meet Management Standards.
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### Effective date

This is effective for fiscal years ended June 30, 2005, and thereafter.

This Directive rescinds and replaces Office of the Comptroller's Directive No. 1-04, "*Financial Statement Template Preparation for Higher Education Institutions.*"

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## Introduction, Continued

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### Exceptions to due dates

Chief fiscal officers must submit a written request for exception to the Director of Financial Reporting if due dates cannot be met because of an unanticipated emergency. This request must be submitted 30 days prior to the deadline.

Requests must include a detailed explanation of the reasons for the request and an action plan with intermediate due dates to ensure timely submission of the required information.

**Note:** Any exception granted by DOA requires DOA to adjust its deadlines with both the Auditor of Public Accounts (APA) and others, while still meeting *Code of Virginia* compliance deadlines.

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### Questions

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### Directive availability

This Directive is available at [www.doa.virginia.gov](http://www.doa.virginia.gov). Higher education institutions' fiscal officers are notified via E-mails. The Commonwealth Accounting and Reporting System (CARS) users are notified via the CARS Broadcast Screen.

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### Additional information

If DOA determines additional information is needed from the institution not included in this Directive, DOA will contact the institution as needed.

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## Reconciliation to Draft Financial Statements

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**Requirement** Attachment HE-11, Reconciliation, requires higher education institutions (HEIs) to reconcile the HEI's draft financial statements submitted pursuant to Attachment HE-13, Report of Financial Condition, to the Attachment HE-10, Financial Statement Template. This can be provided on an excel spreadsheet, word document, or hard copies. This reconciliation must be by financial statement line item. See instructions for Attachment HE-11 for additional information.

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## Preparation of Attachments

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### Changes

Attachment HE-10A, Schedule of Cash, Cash Equivalents, and Investments at June 30, is **new** and replaces the prior year Attachment HE-14, GASBS No. 40, Deposit and Investment Risk Disclosures. Attachment HE-10A requires GASBS No. 40 footnote information for cash, cash equivalents, and investments **not** with the Treasurer of Virginia (including restricted cash, cash equivalents, and investments **not** with the Treasurer of Virginia).

Attachment HE-2, Beginning Net Asset Reconciliation, has a **new tab** to reconcile prior year's ending net asset balance for the foundation(s) to the current year's beginning balance.

The Attachment HE-6, Federal Schedules, has been **significantly revised** from the prior year's format. Please read the instructions carefully to ensure amounts are properly reported on this attachment.

The following are changes to the tabs in the **Attachment HE-10**, Financial Statement Template (FST).

- TAB 1A requires SNAP account numbers and balances.
- Prior year's TABS 1B and 1C are no longer required.
- Prior year's TAB 1D is renumbered to TAB 1B.
- TABS 7 and F7, Miscellaneous, have a **new** Part 11, Other Liabilities. A description must be provided for this FST line item.
- TAB 9, Eliminations, is a **new** tab to identify whether asset or liability elimination entries reported on the FST are for HEI or foundation amounts.

The following attachments are **due earlier** than they have been in the past.

- The due date for Attachment HE-10, Financial Statement Template, has been moved up one week to September 29<sup>th</sup>.
- The due date for Attachments HE-11, HE-12, and HE-13 has also been moved up one week to October 13<sup>th</sup>.

The attachment due dates and additional information are detailed on the following pages.

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## Preparation of Attachments, Continued

### Listing of attachments

The column below titled “Complete for HEI or Foundation(s)” documents the financial information that must be reported on the attachments. In this section, the acronyms are defined as follows:

**HEI:** Higher education institution including any blended component units of the HEI.

**Foundation(s):** For purposes of this directive, this includes any foundation/entity that is a discrete component unit of the HEI as required by GASBS No. 39.

<i>Attachment Letter</i>	<i>Complete for HEI or Foundation(s)</i>	<i>Attachment Name</i>	<i>Due Date</i>
HE-1	HEI	Contact Survey	August 4
HE-2	HEI/ Foundation	Beginning Net Asset Reconciliation	August 4
HE-3	HEI	On-Behalf Payments	August 18
HE-4	HEI	Optional Retirement Plans	August 18
HE-5	HEI	GASBS No. 14 Checklist Modified to Reflect <u>GASBS No. 39</u>	August 18
HE-6	HEI	Federal Schedules	September 1
HE-7	HEI	Reconciliation of Appropriation Available and Appropriation Revenue	September 8
HE-8	HEI	Equipment Trust Fund (ETF) Program	September 8
HE-9	N/A	Manual Leave Liability Calculation Guidelines	N/A
HE-10	HEI/ Foundation	Financial Statement Template (The tabs within this attachment are listed below.)	September 29
	HEI/ Foundation	FST	
	HEI	TAB 1A, GASBS 3	
	HEI	TAB 1B, GASBS 31 (formerly TAB 1D)	
	HEI	TAB 2, Receivables	
	HEI	TAB 3, Capital Assets	
	HEI	TAB 4, Accounts Payable	
	HEI	TAB 5, LT Liabilities	
	HEI	TAB 5.1 Bond Defeasance	

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## Preparation of Attachments, Continued

### Listing of attachments, *continued*

<i><b>Attachment Letter</b></i>	<i><b>Complete for HEI or Foundation(s)</b></i>	<i><b>Attachment Name</b></i>	<i><b>Due Date</b></i>
HE-10, <i>continued</i>	HEI	TAB 6, Commitments	September 29
	HEI	TAB 7, Miscellaneous	
	HEI	TAB 8, Short-term Debt	
	HEI/ Foundation	TAB 9, Eliminations	
	Foundation	Combining FST	
	Foundation	TAB F1, Cash, Cash Eqv, & Inv	
	Foundation	TAB F2, SNAP & LGIP	
	Foundation	TAB F3, Receivables	
	Foundation	TAB F4, Capital Assets	
	Foundation	TAB F5, LT Liabilities	
	Foundation	TAB F5.1, LT Liabilities	
	Foundation	TAB F6, Commitments	
	Foundation	TAB F7, Miscellaneous	
	HEI/ Foundation	TAB F8, Intrafund	
	Foundation	TAB F9, Short-term Debt	
HE-10A	HEI	Schedule of Cash, Cash Equivalents, and Investments at June 30	September 29
HE-11	HEI/ Foundation	Reconciliation	October 13
HE-12	HEI/ Foundation	Adjustments	October 13
HE-13	HEI	Report of Financial Condition	October 13

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## Preparation of Attachments, Continued

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### Informational

There are numerous comments within the excel spreadsheets that provide clarification regarding information that should be provided. Many cells have validation features to ensure information is entered correctly. If information is not entered correctly, an error message will display. Some of the validation functions are as follows: only yellow highlighted cells allow for data entry, only enter whole dollar amounts, amounts on the financial statement template (FST) or Combining FST must agree to the footnote template totals.

A detailed listing of changes and items of interest was e-mailed to fiscal officers and is posted on DOA's website at [www.doa.virginia.gov](http://www.doa.virginia.gov). Click on the "Financial Reporting" button, then click on "Financial Statement Directives."

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### Submission information

Except as noted on specific attachments, DOA **requires** the institution to e-mail the attachments, and / or supplemental information to: [finrept@doa.virginia.gov](mailto:finrept@doa.virginia.gov). DOA will e-mail a confirmation of receipt for each electronic submission. Institutions should follow up with DOA if the institution does not receive a confirmation. **Institutions should not submit paper copies of e-mailed attachments.**

DOA will also notify institutions if submissions do not meet the specified standards. If a submission is deemed unacceptable and rejected by DOA, the institution will be provided a short window of opportunity to resubmit the information in a manner that adequately addresses the deficiencies noted by DOA and avoid citation in the *Quarterly Report on Statewide Financial Management and Compliance*.

Institutions should copy APA on all e-mail submissions at: [APAFinRept@apa.virginia.gov](mailto:APAFinRept@apa.virginia.gov).

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# Preparation of Financial Statement Template Work Papers

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## Introduction

Each institution must prepare work papers, including any year-end adjusting entries, that clearly support the preparation of the financial statement template, combining financial statement template, and footnote tabs.

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## Guidelines for financial statement work papers

- Reconcile work papers to the internal accounting system.
  - Provide an adequate audit trail so the work papers may be tested to ensure the accuracy of the amounts presented.
  - Have work papers ready for review by the APA as soon as possible after year-end close, but not later than the submission of the associated statements, schedules and attachments.
- 

## Suggested work papers

The following is a list of suggested work papers but is not all-inclusive:

- Trial balances of funds maintained on the institution's accounting system;
  - Trial balances of other funds of the institution that are not maintained on CARS;
  - Schedules to combine the two sets of trial balances above;
  - An itemized listing of capitalized fixed assets as of year-end which reconciles to the institution's internal accounting system; and,
  - A detailed reconciliation of institution debt balances to Department of Treasury audit confirmation schedules.
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## Preparation of Financial Statement Template

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### FST columns

This section provides information for recording amounts for the HEI on Attachment HE-10, Financial Statement Template. As noted previously, **HEI** is defined in this section as the higher education institution including any blended component units of the HEI.

The Financial Statement Template (FST) tab has the following columns:

- **HEI Total Year-End June 30, 2005:** This should be balances/activity of the HEI and any blended component units. Any significant intrafund balance/activity amounts between the HEI and its blended component units must be excluded from this column.
- **Foundation(s) Year-End Totals:** This column is linked to the Combining FST tab which must be completed for all discrete foundation(s).
- **Elimination Entries:** This column is for eliminating significant intrafund balance/activity amounts between the HEI and discrete foundation(s).
- **Combined Total:** This column has the amounts that will be reported in the CAFR.
- **HEI Total Prior Year:** Significant variances between prior year and current year totals must be explained.
- **Foundation(s) Total Prior Year:** Significant variances between prior year and current year totals must be explained. This is a new requirement.

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### Applicable GASB

GASB Statement No. 35 amends GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, to include public colleges and universities. **GASBS No. 34 is used in this document to refer to GASBS No. 34 and GASBS No. 35.**

All other applicable Generally Accepted Accounting Principles (GAAP) must be followed.

**Note:** A Generally Accepted Accounting Principles (GAAP) Master List is available on DOA’s website at [www.doa.virginia.gov](http://www.doa.virginia.gov). Click on the “Financial Reporting” button, then click on “Financial Statement Directives.” This list is for informational purposes only and is neither authoritative nor all-inclusive.

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## Preparation of Financial Statement Template, Continued

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### Funds to be reported

**All funds** must be presented in the financial statement template, regardless of whether the funds are recorded on CARS. This includes all trust, local, and endowment funds.

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### Instructions for completing financial statement template

Detailed instructions for completing the financial statement template are found in the **Instructions for Attachment HE-10**.

Also, see **Additional Guidelines for Preparation of the Financial Statement Template** section.

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## NACUBO and GASB Guidance

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### NACUBO guidance

Position papers and other guidance issued by NACUBO represent level 5 GAAP. This guidance should be followed by all higher education institutions in the absence of any guidance from the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), or the American Institute of Certified Public Accountants (AICPA).

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### Current implementation

As noted previously, the following GASB Statement must be implemented this year.

**GASBS No. 40**, *Deposit and Investment Risk Disclosures*, amends **GASBS No. 3** by updating the custodial credit risk disclosure requirements and by establishing more comprehensive disclosure requirements for other common risks of deposits and investments.

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### GASBS No. 28 reporting for the general account

**DOA will provide** asset, liability, income, and expense amounts for each institution's share of securities lending transactions, **if any**, held in the General Account of the Commonwealth. This information and guidance on where these amounts should be recorded on the financial statement template will be provided in a separate document.

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## NACUBO and GASB Guidance, Continued

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### Future imple- mentations

**GASBS No. 42**, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, requires evaluation of events and circumstances that might impair the value of capital assets. This statement is effective for fiscal year 2006.

**GASBS No. 43**, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and **GASBS No. 45**, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establish uniform standards of financial reporting by state and local governmental entities for other postemployment benefit plans. These statements are effective for the Commonwealth beginning in fiscal year 2007 and 2008, respectively.

**GASBS No. 46**, *Net Assets Restricted by Enabling Legislation*, provides additional guidance on classifying restricted net assets. This statement is effective for fiscal year 2006.

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**Note:** The Commonwealth's policy is **no early implementation** of any GASB Statement. If an institution early implements any GASB Statement in its individually published financial statements, the Attachment HE-10, Financial Statement Template, submission must exclude the effects of any early implementations.

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## Preparation of Fluctuation Analyses

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<b>Due date</b>	<p>Fluctuation analyses must be prepared for the financial statement template and submitted electronically to the APA <b>and</b> DOA by <b>September 29, 2005</b>.</p> <p>UVA, VPI, VCU, VCBA, and ITA are not required to submit fluctuation analyses because APA audits these institutions prior to December 15 and will review the analyses at the institutions.</p>
<b>Requirements</b>	<p>DOA has included a fluctuation analyses format on the financial statement template file. DOA has entered amounts from the FY 2004 financial statement templates for the HEI and the foundation(s) in the prior year columns. There are also columns to show dollar and percentage variances. Columns are available for note references to explain material fluctuations for the HEI and foundations(s) in a separate document. This is the first year that variance explanations are required for the foundation totals.</p>
<b>How to determine materiality</b>	<p>Refer to <b>Additional Guidelines for Preparation of the Financial Statement Template</b> section for guidance in determining materiality. Materiality must be calculated on the HEI and foundation(s) totals separately.</p>
<b>Review of fluctuation analyses</b>	<p>Each institution's chief fiscal officer must review fluctuation analyses, and any significant fluctuations should be explained.</p>

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## Supplemental Information

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<b>The College of William and Mary (CWM)</b>	<p>The following is due to DOA by <b>September 29, 2005</b>: Supporting schedules for the Statement of Net Assets and Statement of Activities that includes amounts for CWM, Virginia Institute of Marine Science, Richard Bland College, blended component units (if any), and elimination entries of significant intrafund balance/activity amounts.</p>
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## Supplemental Information, Continued

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### Virginia College Building Authority (VCBA)

Provide the following information by **October 6, 2005**:

- VCBA Financial Statements (Fund Statements reconciled to Government-wide Financial Statements),
  - Current year payables for 21<sup>st</sup> Century activity,
  - Debt service requirements for FY 2005 (including Pooled Bond issuances by institution for FY 2005), and
  - Other information required to properly report VCBA in the CAFR. DOA will provide in a separate communication.
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### Virginia Common- wealth University (VCU)

DOA will provide VCU a financial statement template to combine VCU's financial activity with the VCU Health System Authority's financial activity. For CAFR reporting purposes, the VCU Health System Authority is treated as a blended component unit when completing attachments. Significant intrafund balance/activity amounts among VCU and the VCU Health System Authority must be excluded from amounts reported on the financial statement template.

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### Virginia Community College System

The following is due to DOA by **September 29, 2005**: Supporting schedules for the Statement of Net Assets, Statement of Activities, and elimination entries of significant intrafund balance/activity amounts.

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### All institutions

- The following is due to DOA by **October 13, 2005**: Letter of Transmittal, including a general statement regarding the institution's internal control to ensure compliance with the *Commonwealth Accounting Policies and Procedures (CAPP) Manual* Topic 10305, Internal Control.
  - DOA will provide in a separate communication any additional institution or foundation information needed and the required date it must be submitted to DOA. The institution will be responsible for submitting the information to DOA by the specified date.
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# Additional Guidelines for Preparation of the Financial Statement Template

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## Contents

The following sections provide some guidelines for preparation of the financial statement template.

- GASBS No. 34 Reporting Requirements
  - Determination of Materiality
  - Cash Held with the Treasurer of Virginia
  - Appropriations Available / Reversions to the Commonwealth
  - Inventory
  - Equipment
  - Accounts Payable
  - Net Assets – Endowment
  - Miscellaneous
- 

## GASBS No. 34 Reporting Requirements

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### CAFR Reporting

All HEIs must complete the following for **FY 2005**:

- Statement of Net Assets and Statement of Activities (Attachment HE-10, Financial Statement Template), and
  - Notes to the Financial Statements (Obtained from Attachment HE-10 and other attachments).
- 

### Infrastructure

In addition, this statement requires the Commonwealth and HEIs to report infrastructure assets.

The State Comptroller elected and the Auditor of Public Accounts approved the **historical approach** to report infrastructure assets pursuant to the authority granted them in Section 2.2-813 of the *Code of Virginia* (1950), as amended.

The HEIs **must** use the **historical approach** to report infrastructure assets.

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## Determination of Materiality

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### How to determine materiality

Refer to the fluctuation analyses format on the financial statement template file and use the following to determine materiality on the HEI and foundation totals separately.

- 1) Determine materiality for the institution based on activity reported on the institution's financial statement template using the **HEI Total Year-End June 30, 2005** column.
- 2) Select the larger of total assets or total revenue as reported on the institution's current year financial statement template as the **base amount** for determining materiality. Using columns A and B, find the row that contains the **base amount**. **The corresponding amount in column C is the materiality scope.** Investigate any variances between the current and prior year activity at the template line item level that are greater than the materiality scope **AND** greater than or equal to 10%.
- 3) Determine materiality for the foundation(s) total based on activity reported on the institution's financial statement template using the **Foundation(s) Year-End Totals** column. Perform step 2.

**Example:** An institution has total assets of \$180,000,000 and total revenues of \$70,000,000. The base amount would be total assets of \$180,000,000. The materiality scope would be \$365,000.

A	B	C
0	50,000	1,000
50,001	100,000	3,000
100,001	500,000	4,000
500,001	1,000,000	13,000
1,000,001	5,000,000	18,000
5,000,001	10,000,000	50,000
10,000,001	50,000,000	80,000
50,000,001	100,000,000	240,000
100,000,001	300,000,000	365,000
300,000,001	1,000,000,000	725,000
1,000,000,001	3,000,000,000	1,775,000
3,000,000,001	10,000,000,000	4,175,000
10,000,000,001	30,000,000,000	10,475,000
30,000,000,001	100,000,000,000	22,475,000

**\*Please note that the material dollar amounts in column C are consistent with materiality guidelines established for the CAFR and may differ from the materiality guidelines required by each institution's auditors.**

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## Cash Held with the Treasurer of Virginia

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### Cash to be included

Include GLA 101 cash for all funds except the General Fund (fund 0100) on the Cash Held With the Treasurer line on the financial statement template. General Fund GLA 101 cash should be reported as either Capital Project or Other Appropriation Available, depending on the program. **DO NOT REPORT GLA 101 CASH THAT REVERTS TO THE GENERAL FUND AS OF JUNE 30 AS CASH WITH THE TREASURER.**

See related items in the Instructions to Attachment HE-7, Reconciliation of Appropriation Available and Appropriation Revenue. Also, see the Instructions to Attachment HE-10 (TAB 1A, GASBS 3). Specifically, see the instruction for Cash held with the Treasurer of Virginia.

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## Appropriations Available / Reversions to the Commonwealth

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### How to report unexpended appropriations

Unexpended appropriations authorized for reappropriation by the Department of Planning and Budget may be reported on the financial statement template as “Appropriation Available” on the applicable line item. Please refer to the Instructions for Attachment HE-7 for a list of appropriation available line items.

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### How to calculate reversions

Reversions should be netted against appropriation revenue to the extent possible. Reversions should be calculated from CARS as follows:

Appropriations (GLA 900)		\$XXX
Less: Expenditures (GLA 901)	(XXX)	
Expenditure Refunds (GLA902)	<u>XXX</u>	
Net Expenditures		<u>(XXX)</u>
Calculated Reversion		XXX
Less: Reappropriation ①		<u>(XXX)</u>
Reversion		<u>XXX</u>

① When preparing the FST for FY 2005, this number would represent the FY 2005 unexpended 0100 or 0300 fund appropriations, which are reappropriated in the first two months of FY 2006. All amounts reappropriated must be supported by Department of Planning and Budget authorizations.

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## Inventory

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### Items included in inventory

**Include** materials and supplies in the inventory line item on the financial statement template. Disclose any liens from pledging or assigning inventory in the Part 1 Inventory section of Attachment HE-10 (TAB 7, Miscellaneous).

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### Items not included in inventory

**Do not include** consigned inventory and donated food in inventory. Donated food must still be counted for federal reporting purposes, even though it is not reported on the financial statement template.

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### Method to use for reporting inventory

Use the **consumption method** when reporting inventory. This reporting method stipulates that inventory items to be used in operations must be reported as financial resources (assets) when acquired, and expenses must be recognized when the items are used. Many institutions may be currently recording inventory items as expenses when purchased (the purchase method); therefore, this accounting methodology requires an adjusting journal entry to record an asset and to reduce expenses for the unused inventory as follows:

Debit: Inventory	XXX
Credit: Expenses	XXX

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## Equipment

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### Internal use computer software costs

Include any capitalized costs for internal use computer software in the Equipment line item. See CAPP Manual Topic 30305, “Software Purchased or Developed for Internal Use” for additional information. Any inquiries may be addressed to those listed in the **Questions** section of the Directive.

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## Accounts Payable

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### What should be included?

The line item “accounts payable” includes accounts payable, retainage payable, accrued expenses, wages and salaries payable, credit balances on student loans, amounts due to other state agencies, and / or settlements / amounts due to third-party programs.

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## Net Assets - Endowment

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### Classifying endowments

Contributions to permanent **and** term endowments should be reported as separate line items on the financial statement template, in the General Revenues section. The line items are “Contributions to Permanent Endowments” and “Contributions to Term Endowments.”

The net assets of permanent and term endowments **are** distinguished on the financial statement template in the Statement of Net Assets section as follows:

**Permanent Endowment** – Permanent endowment funds are funds with respect to which donors or other outside agencies have stipulated that the principal be maintained in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to principal. Therefore, the principal portions should be reported as restricted net assets – nonexpendable and the investment income should be reported as restricted net assets – expendable. The unrealized appreciation may be nonexpendable or expendable depending on the donor’s specifications and applicable state law.

**Term Endowment** – Similar to permanent endowment funds except that, upon passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. Therefore, only a temporary restriction on net assets exists and term endowment funds should be reported as restricted net assets – expendable.

**Quasi-Endowment** – Quasi-endowment funds are funds which the governing board of an institution, rather than a donor or outside agency, has determined are to be retained and invested. Since these funds are internally designated rather than externally restricted, the governing board has the right to decide at any time to expend the principal. Therefore, quasi-endowment funds may be either restricted or unrestricted. Quasi-endowments created with restricted resources must be reported as expendable restricted net assets. Those created with unrestricted resources must be reported with unrestricted net assets, but could be described in a note to the financial statements indicating that they have been designated for long-term investment.

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## Miscellaneous

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### Depreciation

**Depreciation expense and the related accumulated depreciation** of property, plant and equipment, including infrastructure, **must** be reported in accordance with GASBS No. 34.

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### Expenses and program revenues

For CAFR reporting, total expenses for the higher education institution are reported. The financial statement template has one line item to report **Operating and Nonoperating Expenses**.

The program revenue line items on the financial statement template include only three **total program revenue** line items as follows: **Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions**.

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### Gain/loss on sale/disposal of capital assets

For CAFR reporting, the loss on the sale/disposal of capital assets should be reported with expenses. There is a line item after operating and nonoperating expenses on the financial statement template to record this amount. Also, there is a line item under the general revenues section to report the gain on the sale/disposal of capital assets.

Exception to the above reporting: If any gain/loss on the sale/disposal of capital assets qualify as a special or extraordinary item, then the amounts must be reported on those line items.

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### Scholarships discounts and allowances

NACUBO has published Advisory Report 2000-05, *Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Institutions of Higher Education*. The “alternative method” described in this report represents preferred industry practice for all public schools, colleges, and universities in the absence of any guidance from the Financial Accounting Standards Board, the Governmental Accounting Standards Board, or the American Institute of Certified Public Accountants.

The GASBS No. 35 Implementation Guide developed by NACUBO and PricewaterhouseCoopers LLP, questions 79 through 87, also addresses specific scholarship issues.

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## Miscellaneous, Continued

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### Summer school sessions that cross fiscal years

The GASBS No. 35 Implementation Guide developed by NACUBO and PricewaterhouseCoopers LLP, question 39, states that revenues and expenses for a summer session should be allocated between the two fiscal years. Appropriate amounts should be recognized in the accounting period in which they are earned or incurred and become measurable.

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### Unrealized gains and losses

Unrealized gains and losses should be reported as part of the investment earnings line item in accordance with paragraph 13 of GASBS No. 31.

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### Contract and grant revenues and indirect cost recoveries

A contract or grant considered to be an exchange transaction will generally be for program activities and should be treated as operating revenue. Grants that represent nonexchange transactions are treated as nonoperating revenues. (See the GASBS No. 35 Implementation Guide developed by NACUBO and PricewaterhouseCoopers LLP, question 38.)

Indirect cost recoveries associated with exchange transactions should be recorded as operating revenues and indirect cost recoveries associated with nonexchange transactions should be recorded as nonoperating revenues. (See the GASBS No. 35 Implementation Guide developed by NACUBO and PricewaterhouseCoopers LLP, question 41.)

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### Bonds payable

The bonds payable amount reported on the financial statement template, including unamortized discounts, must agree to the Department of Treasury schedules plus any institutional debt (i.e., debt not issued through Treasury). **If the amount does not agree to Treasury's balances plus institutional debt, a reconciliation must be provided by the institution and submitted with Attachment HE-10.**

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## Miscellaneous, Continued

<b>Lag pay</b>	Record any applicable lag pay accruals in the financial statement template. At a minimum, this will require recording of the July 1 (June 10-24 pay period) and a portion of the July 15 (June 25-30 pay period) paychecks.
<b>Extraordinary items</b>	This represents transactions/events that are both unusual in nature <b>and</b> infrequent in occurrence. A description must be provided for these items.
<b>Special items</b>	This represents significant transactions/events that are within the control of management and are unusual in nature <b>or</b> infrequent in occurrence. A description must be provided for these items.
<b>Elimination entries</b>	Line items are provided on the financial statement template to record significant intrafund balance/activity amounts between the HEI and the foundation(s). The amounts reported on these line items must be eliminated and the ending balances should be zero in the Combined Total column on the financial statement template. See the section titled: <b>Combining Financial Statement Template Preparation for Foundation(s)</b> and instructions for Attachment HE-10 for additional guidance.
<b>Inquiries</b>	Inquiries may be directed to the individuals in the <b>Questions</b> section on page 6 of the Directive.

# Combining Financial Statement Template Preparation for Foundation(s)

## Introduction

### Background

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GASBS No. 39 implementation resulted in approximately sixty-seven foundations being reported in the FY 2004 CAFR. This section provides guidance for converting a foundation's financial statements into the Combining Financial Statement Template tab (Combining FST) included in the Attachment HE-10, Financial Statement Template. These foundations must also be included in the HEI's individually published financial statements. This guidance **does not** address reporting issues for converting the foundation's financial statements into the HEI's individually published financial statements. The guidance only addresses financial reporting at the CAFR level.

As noted previously, **foundation** is defined in this directive as a foundation/entity that is considered a discrete component unit of the HEI as required by GASBS No. 39. Foundations are primarily a non-profit charitable entity that exist solely to assist and support the HEI and are exempt from federal income tax under the Internal Revenue Code Section 501(c)(3). These foundations report under FASB rather than GASB standards. Financial statements are presented under SFAS No. 117, Financial Statements of Not-for-Profit Organizations.

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## Introduction, Continued

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### Attachment HE-10

As noted previously, the following tabs are included in **Attachment HE-10** to obtain **foundation** financial and footnote information:

- Combining FST
  - TAB F1, Cash, Cash Eqv, & Inv
  - TAB F2, SNAP & LGIP
  - TAB F3, Receivables
  - TAB F4, Capital Assets
  - TAB F5, LT Liabilities
  - TAB F5.1, LT Liabilities
  - TAB F6, Commitments
  - TAB F7, Miscellaneous
  - TAB F8, Intrafund
  - TAB F9, Short-term Debt
- 

### Combining FST

Most HEIs have at least one foundation but some have as many as seven. The Combining FST has eight columns available to report amounts for each foundation. Four of these columns are hidden for most of the HEIs because they have less than four foundations. The **Elimination Entries** column is to eliminate significant intrafund balance/activity amounts among the foundations. The **Foundation(s) Year-End Totals** column totals all columns. The FST is linked to this column. If applicable, the footnote information provided must agree to the Combining FST amounts or “Error” messages will appear.

Most foundations have a June 30<sup>th</sup> year-end. Some foundations have a December 31<sup>st</sup> year-end. **The foundations with a December 31<sup>st</sup> year-end must complete the Combining FST for the year-ended December 31, 2004.**

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## Introduction, Continued

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### Conversion issues

The following is a list of some issues that may require additional information from the foundation in order for the HEI to convert the foundation's financial statements into the Combining FST by the required due date. **Please note that this list is not all inclusive.**

- The HEI should take steps to ensure the foundation will provide accurate information so the HEI can meet the earlier September 29th attachment deadline.
  - If the foundation does not prepare the **Statement of Financial Position** in a **classified format**, the HEI must obtain the long-term liabilities due within one year/due in greater than one year by line item and **net receivables** to be collected in greater than one year.
  - Since **depreciable and nondepreciable capital assets** must be reported on separate line items in the CAFR, capital asset gross amounts and accumulated depreciation amounts by asset type must be provided.
  - The net asset line item **Invested in Capital Assets, Net of Related Debt** must be determined. Unrestricted net assets should be reduced by the amount that should be reported as Invested in Capital Assets, Net of Related Debt (i.e. bonds payable, notes payable, capital leases, etc.).
  - Revenues must be classified as **Program or General Revenues**.
  - **Significant intrafund balance/activity** amounts **between foundations** must be **eliminated** on the Combining FST. **Significant intrafund balance/activity** amounts **between the HEI and foundations** must be eliminated on the financial statement template (FST). Note: Significance must be determined by each HEI using professional judgement.
  - If **significant intrafund balance/activity** amounts **cannot be eliminated** because the foundation has a December 31<sup>st</sup> year-end, these amounts must be reported on Attachment HE-10, Financial Statement Template, TAB F8, Intrafund.
  - If the foundation has any investments in **SNAP or LGIP**, account numbers and balances must be provided.
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## Line Items

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### General

Many of the foundation financial statement line items can easily be converted into the Combining FST line items. Some line items are not as easily converted and additional information may be needed from the foundation.

The Combining FST does not include line items that are unique to the HEI (i.e. appropriations available and appropriations revenue).

Some line items are discussed in the following sections.

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### Cash, cash equivalents, and investments

The following line items are to report any cash and cash equivalents:

- **Cash and Cash Equivalents**, and
- **Restricted Cash and Cash Equivalents**.

The following line items are to report any investments:

- **Investments**, and
- **Restricted Investments**.

The above line items can **only** be used to report foundation amounts. Attachment HE-10, Financial Statement Template, **TAB F1** must be completed for cash, cash equivalents, and investment footnote disclosures.

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### Contributions receivable, net

**Contributions Receivable, Net** represents a promise a donor makes to give the foundation a contribution that is, in substance, unconditional. They are reported at the present value of their estimated future cash flows. CAFR footnote disclosure will mirror the foundation's footnotes with the following information: receivable due in less than one year, receivable due between one and five years, receivable due in greater than five years, discount amount, allowance amount, and discount rates used to determine present value. This line item can **only** be used for the foundations.

Attachment HE-10, Financial Statement Template, **TAB F3 Part 2** must be completed for this line item.

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## Line Items, Continued

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### Short-term debt (i.e. lines of credit)

Many foundations have **Short-term Debt (i.e. lines of credit)**. Bond anticipation notes payable (BANS) amounts must be reported on the Long-Term Liabilities – Bond Anticipation Notes Payable line items. (Note: The HEI can also report amounts on the FST on this line item.)

Attachment HE-10, Financial Statement Template, **TAB F9 Part 1** must be completed for this line item and **Part 2** must be completed for BANS.

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### Long-term liabilities – trust and annuity obligations

**Long-Term Liabilities – Trust and Annuity Obligations** represent obligations owed to beneficiaries under the terms of trust or annuity agreements. For example, split-interest agreements usually provide that the HEI or foundation act as trustee for the gift assets, with the requirement that an annual distribution be made to a specified beneficiary. These distributions are usually for a fixed dollar amount (annuity trust) or a fixed percentage of the trust's fair market value (unitrust).

The amount due within one year and the amount due in greater than one year must be reported separately on the financial statement template. (Note: The HEI can also report amounts on the FST for this line item.)

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### Increase/decrease in split-interest agreements

The following two line items are to report the changes in split-interest agreements:

- **Increase in Split-Interest Agreements**, and
- **Decrease in Split-Interest Agreements**.

(Note: The HEI can also report amounts on the FST for these line items. The Comprehensive Implementation Guide – 2004, question 7.324 explains how split-interest agreements should be reported by the HEI under GASBS No. 34 and GASBS No. 35.)

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## Line Items, Continued

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### Intrafund balance/ activity

The following line items may be used to report significant intrafund balance/activity amounts among the foundations and among the HEI and the foundation(s). After all amounts, including elimination entries, are entered on the Combining FST and the FST, the Combined Total amount for these line items should be zero.

Due from Foundation(s)

Due to Foundation(s)

Due from Higher Education Institution \*

Due to Higher Education Institution\*

Payments/Support from Foundation(s)

Payments/Support to Foundation(s)

Payments/Support from Higher Education Institution\*

Payments/Support to Higher Education Institution\*

\*These line items can only be used by the foundation. The remaining line items can be used by either the HEI or the foundation.

The HEI will need to work with the foundation to determine what significant intrafund balance/activity amounts are reported on the foundation's financial statements and determine what reclassifications are needed to appropriately report these on the Combining FST.

The Combining FST has an elimination entry column that must be used to eliminate significant intrafund balance/activity amounts among the foundations. The FST has an elimination entry column that must be used to eliminate significant intrafund balance/activity amounts among the HEI and the foundation(s).

Any insignificant intrafund balance/activity amounts not eliminated should be reported on other financial statement template line items. Also, any significant intrafund balance/activity amounts not eliminated because the foundation has a December 31<sup>st</sup> year-end must be reported on Attachment HE-10, Financial Statement Template, TAB F8, Intrafund.

Note: Significance must be determined by each HEI using professional judgement.

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## Line Items, Continued

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### Net assets

The following two line items are to report foundation amounts:

- **Net Assets/Restricted/Nonexpendable/Permanently Restricted**, and
- **Net Assets/Restricted/Expendable/Temporarily Restricted**.

Foundations report their net assets in one of three categories: Unrestricted, Temporarily Restricted, and Permanently Restricted. These line items are to report the temporarily restricted and permanently restricted net assets.

The foundation's **unrestricted net asset** amount must be **reduced** by the **invested in capital assets, net of related debt** (i.e. bonds payable, notes payable, capital leases, etc.) amount.

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# Revenue Classification

## Revenues

The foundations' revenues must be analyzed to determine **both** the appropriate revenue classification and whether any significant revenues represent payments/support from the higher education institution or other foundations. If so, those amounts may be reported on the Combining FST as one of the following line items.

- Payments/Support from Foundation(s)
- Payments/Support from Higher Education Institution

The following are the other revenue line items on the Combining FST.

- Program Revenues – Charges for Services
- Program Revenues – Operating Grants and Contributions
- Program Revenues – Capital Grants and Contributions
- General Revenues – Investment Earnings
- General Revenues – Grants & Contributions not Restricted to Specific Programs
- Contributions to Permanent Endowments
- Contributions to Term Endowments
- Miscellaneous Revenues

See the next section for additional information regarding these revenue classifications.

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## Revenue Classification, Continued

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### Revenue classifications

Foundation revenue amounts must be analyzed to determine the proper reporting on the Combining FST in accordance with GASBS No. 34 and GASBS No. 35. See also GASBS No. 37 and the Comprehensive Implementation Guide – 2004 for additional guidance. Below is a brief description of the revenue line items:

- **Program Revenues – Charges for Services:** Represents charges to customers, applicants or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services (see GASBS No. 34, GASBS No. 37, paragraph 13 which amends GASBS No. 34, paragraph 49)
  - **Program Revenues – Operating Grants and Contributions:** Represents revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program (see GASBS No. 34, paragraph 50).
  - **Program Revenues – Capital Grants and Contributions:** Same definition as operating grants and contributions except the restriction is for capital purposes.
  - **General Revenues – Investment Earnings:** Represents interest, dividends, unrealized gains/losses on investments, realized gains/losses, and other investment earnings on investments that do not meet the definition of program revenue. For example, investment earnings on permanent or term endowments should be reported as program revenue if restricted to a program or programs specifically identified in the endowment agreement or contract. Other investment earnings should be reported as General Revenues - Investment Earnings.
  - **General Revenues – Grants & Contributions not Restricted to Specific Programs:** Represents unrestricted contributions.
  - **Contributions to Permanent Endowments:** Represents funds with respect to which donors or other outside agencies have stipulated that the principal be maintained in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principal. The foundation's permanently restricted contributions should be reported on this line item.
  - **Contributions to Term Endowments:** Similar to permanent endowments except that upon passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended.
  - **Miscellaneous Revenues:** Represents revenue amounts that do not fall under the other categories.
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## Expenses

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**Total expenses** The foundation's total expenses can be reported on one line item on the Combining FST. Any significant expenses that represent payments/support to the higher education institution or other foundations may be reported on the Combining FST as one of the following line items.

- Payments/Support to Foundation(s)
  - Payments/Support to Higher Education Institution
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## Footnotes

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**Summary** Tabs are on the Attachment HE-10, Financial Statement Template, to obtain footnote information for foundations. They are listed below.

- TAB F1, Cash , Cash Eqv, & Inv
  - TAB F2, SNAP & LGIP
  - TAB F3, Receivables
  - TAB F4, Capital Assets
  - TAB F5, LT Liabilities
  - TAB F5.1, LT Liabilities
  - TAB F6, Commitments
  - TAB F7, Miscellaneous
  - TAB F8, Intrafund
  - TAB F9, Short-term Debt
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## Footnotes, Continued

### Additional information needed

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While most footnote information requested should mirror the foundation's footnotes, there are some instances where the foundation footnotes may not include required information. The following listing identifies tabs that may require additional information. (Please be aware that this may not be an all-inclusive listing.)

- **TAB F1, Cash, Cash Eqv, & Inv:** If any investments are reported at cost rather than fair value, the investment type and cost must be provided in Part 2c. Also, if the foundation has any investments in SNAP or LGIP, the account numbers and year-end balances must be provided on **TAB F2, SNAP & LGIP**.
- **TAB F3, Receivables; Part 1:** For any amounts reported on the Receivables, Net line item, the following must be provided: gross amounts for accounts receivable, loans receivable, and other receivables, and total allowance for doubtful accounts. Also, the receivable, net amount expected to be collected in greater than one year must be provided.
- **TAB F4, Capital Assets:** Year-end capital asset gross amounts and accumulated depreciation amounts by asset type must be provided.
- **TAB F7, Miscellaneous; Part 10:** If the foundation has a December 31<sup>st</sup> year-end and significant intrafund balance/activity amounts cannot be eliminated, **TAB F8, Intrafund**, must be completed.
- **TAB F7, Miscellaneous, Part 11:** If an amount is reported on the **Other Liabilities** line item, a description must be provided. This is a new requirement.

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## Elimination Entries

### Requirement

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As previously noted, the "Elimination Entries" column on the Combining FST must be used to eliminate significant intrafund balance/activity amounts among the foundations. If the HEI only has one foundation, no elimination entries are needed on this tab. The "Elimination Entries" column on the FST is to eliminate significant intrafund balance/activity amounts among the HEI and the discrete foundation(s). The "to" and "from" elimination entry amounts must equal; therefore, ending net asset amounts should not be increased or decreased as a result of these entries.

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## Elimination Entries, Continued

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### Options

**Option 1)** The following line items may be used to report significant intrafund balance/activity amounts:

- Due from Foundation(s),
- Due to Foundation(s),
- Due from Higher Education Institution,
- Due to Higher Education Institution,
- Payments/Support from Foundation(s),
- Payments/Support to Foundation(s),
- Payments/Support from Higher Education Institution, and
- Payments/Support to Higher Education Institution.

If the above line items are used, the elimination entries must be recorded to eliminate all amounts recorded on these line items. If the “Combined Total” amounts on the FST for these line items are not zero after entering all elimination entries, an “Error” message will appear.

**Option 2)** The above line items are optional. If the HEI chooses not to use these line items, the significant intrafund balance/activity amounts that are reported on other line items must be eliminated. For example, the HEI may record significant Payments/Support from Foundation(s) on one of the other revenue line items. The Foundation(s) may record the significant Payments/Support to the Higher Education Institution under the operating and nonoperating expenses line item. The elimination entries could be made to the appropriate revenue and expense line items.

Whichever option is followed, keep in mind the following: 1) Significant intrafund balance/activity amounts among the HEI foundations and between the HEI and the foundation(s) must be eliminated. 2) The net affect on net assets for the Elimination Entries column on the FST and on the Combining FST must be zero. 3) Supporting documentation must be maintained by the HEI to document these elimination entries and also to document any significant balance/activity amounts not eliminated because of the foundation’s December 31<sup>st</sup> year-end.

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## Additional Information

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### **Additional Requests**

Additional reporting issues may arise during CAFR preparation. As such, DOA may request additional information. DOA will not contact foundations directly for any information regarding amounts reported for the foundations. DOA will contact the HEI, and the HEI is responsible for providing the requested information within the specified timeframe.

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### **Attachment HE-10**

See also instructions for Attachment HE-10, Financial Statement Template, for recording amounts on the Combining FST and related footnote tabs.

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